



ASSESSMENT OF POVERTY REDUCTION POLICIES AND PROGRAMS IN BANGLADESH

Mustafa K. Mujeri

A paper presented in a conference on **Assessment of Poverty Reduction Policies**, organized by INSEA and IDRC under *Micro Impacts of Macroeconomic Adjustment Policies (MIMAP)* Project, January 28-31, 2002, Rabat-Morocco.

Assessment of Poverty Reduction Policies and Programs in Bangladesh

Mustafa K. Mujeri*

January 2002

*** Project Leader, MIMAP-Bangladesh**

Contents

	<i>Page</i>
1. Introduction	1
1.1 Background	1
1.2 Issues and Major Concerns	2
 2. Poverty and Growth Performance: Achievements and Challenges	 4
2.1 Recent Trends in Poverty	4
2.2 Changes in Human Poverty	6
2.3 Changes in Inequality	6
2.4 Poverty Profile and Determinants	8
2.5 Economic Growth and Poverty	9
2.6 Priorities for Poverty Reduction	17
 3. Poverty Reduction in Bangladesh: All Routes Matter	 19
3.1 Approaches to Poverty Reduction	19
3.2 Targeted Programs	20
3.2.1 Food Assisted Programs	21
3.2.2 Rural Infrastructure Development Programs	24
3.2.3 Microcredit Programs	24
3.2.4 Special Transfer Programs	25
 4. Policies and Institutional Measures for Poverty Reduction	 29
4.1 The Policy Framework	29
A. Increasing Pro-Poor Economic Growth	29
B. Increasing Human Development of the Poor	33
C. Strengthening Social Safety Nets	34
D. Enhancing Participatory Governance	34
E. Policies and Institutions for Reducing Inequality	35
4.2 Employment Creation: The Key Issue	36
 References	 37

List of Tables

	<i>Page</i>
Table 2.1: Incidence of poverty in Bangladesh	4
Table 2.2: Changes in Growth and Inequality	7
Table 2.3: Sources of Income Inequality, 1992-1996	8
Table 2.4: Growth Performance of the Bangladesh Economy	10
Table 2.5: Real Wage Rate Indexes by Labour Categories	11
Table 2.6: Trends in Real Per Capita Income	12
Table 2.7: Regional Variation in Per Capita GDP	13
Table 2.8: Underemployment in Bangladesh, 1995/96	14
Table 2.9: Trends in Relative Food Prices	17
Table 3.1: Resource Use Under Safety-Nets Programs	21
Table 3.2: A Profile of Food Assisted programs	22
Table 3.3: Targeting Performance of Selected Food Assisted Programs	23

1. Introduction

Bangladesh, a small country with a geographical area of 147,570 sq. km. but a population of 132 million in 2001, faces formidable development challenges. The per capita income is low (about US \$ 370 in 2001), one of every two persons is poor and one of three lives below the income poverty line of \$ 1 a day. If the people who are deprived of adequate basic needs and those who live 'above' poverty but are vulnerable and in constant danger of income erosion below poverty are considered, the number will be considerably larger. Such multidimensionality of the poor's deprivations requires attacking poverty through both income and non-income routes.¹ In particular, a 'pro-poor' or 'broad-based' growth is necessary so that employment opportunities for the poor are generated.² Since the poor mostly live in rural areas, it is important for Bangladesh to accelerate rural growth, improve coverage and quality of social services, ensure well-functioning rural institutions, and expand rural infrastructure.

1.1 Background

With improvements in the quality of life of the population as the national goal, poverty reduction remains the overarching development goal in Bangladesh. The Fifth Five Year Plan (1997-2002) aims at reducing poverty substantially through accelerating economic growth, creating gainful employment opportunities and increasing productivity. Over the years, poverty has, however, declined at a slow rate. A major factor has been low growth. Moreover, the rapid labor force growth contributed to imbalances in the labor market creating significant un-and under-employment problems.³ Since the poor in Bangladesh have their own labor as the only major resource, access to employment is the best route for them to

¹ This indicates the importance of adopting a multi-strategy solution to poverty reduction in Bangladesh entailing, in addition to purchasing power, other forms of deprivation e.g. capability and entitlement, participation, empowerment, vulnerability and crisis-coping capacity, networking capacity, intra-household and gender disparities, access to credit and resources, and other social concerns.

² There exist considerable differences in understanding of what such a form of growth is or how to promote it. A common interpretation is to refer to policies that promote labor-intensive growth accompanied by activities which enhance access by the poor to land, credit, infrastructure, and technology. Pro-poor growth increases the poor's share in national income with growth but the operational implications and measures needed to bring about such a growth may cover wide areas e.g. microcredit and microenterprises to enhance the poor's productivity; enabling environment with macroeconomic efficiency, better regulation, competition, transparency, and accountability; small and medium enterprises; agriculture and rural development. In this context, the importance of agriculture as an 'engine of growth' for poverty reduction is often highlighted.

³ There also exist large sectoral imbalances in the employment pattern. The employment scenario is characterized by predominance of agriculture: more than 60 per cent of the employed labor force are involved in agriculture although its contribution to GDP is around a quarter. Manufacturing accounts for less than 10 per cent of total employment of which only a fifth is accounted for by large and medium scale enterprises. Two disquietening features of the labor market may be highlighted: first, declining growth of employment in the formal manufacturing sector; and second, trend towards greater informalization of employment as a whole.

move out of poverty. Since poverty has many roots, a sustained process of pro-poor and employment-creating growth in Bangladesh requires a comprehensive approach that provides the poor better access to a wide set of asset framework: physical capital to increase productivity and primary income; human capital to enhance capabilities and take advantage of new opportunities; financial capital to undertake productive livelihood options; natural capital to ensure sustainability and diversity of income streams; social capital (e.g. through grassroots mobilization) to enhance networking capacity and facilitate management of extra-market activities; cultural capital to improve status and entitlements; and political capital (e.g. through empowerment and participation) to strengthen bargaining power and ensure a fair access to resources, public services and decision-making.

While poverty-reducing public policies need to address all the above concerns, a special problem in a labor-surplus economy like Bangladesh is the persisting gap between the required and the actual rates of employment creation. The growth process, on its own, is unable to absorb the growing labor force. With a large pool of surplus labor, Bangladesh needs to provide additional efforts to create employment, particularly for those in rural areas with little alternative livelihood options. For the purpose, interventions of direct employment creation are needed e.g. through public works and other labor-based infrastructure development programs. Such investments are pro-poor since, in addition to creating employment for the poor, these provide much-needed infrastructure and services for rural growth.

1.2 Issues and Major Concerns

In Bangladesh, the Government's intervention in poverty reduction is centered around the key issue of employment creation. One of the major objectives of the Fifth Five Year Plan (1997-2002) is to generate 'substantial gainful employment opportunities with increase in productivity through an optimal choice of traditional labor intensive and new generation technologies' (Planning Commission 1998, p. 158). For this, while acceleration and restructuring of economic growth with focus on rural development is considered a priority, the pro-poor elements for employment creation emphasize self-employment opportunity for

the rural poor, mainly through targeted production and employment programs and wage employment through rural infrastructure building and maintenance.⁴

In order to accelerate economic growth and bring desirable changes in the economy, Bangladesh has been pursuing structural adjustment and other reform programs since the 1980s. While the reforms have led to improved macroeconomic balances and created a more liberalized economy, the country is yet to achieve a sustained and high growth path. During 1980-2000, the average rate of GDP growth has been about 4 per cent per year, although the growth rate somewhat accelerated to around 5.5 per cent during the second half of the 1990s. Such a growth performance, however, is not rapid enough to make any significant impact on poverty. The emerging consensus emphasizes that the country needs to grow by at least 7-8 per cent per year over a protracted period in order to bring rapid poverty reduction. The challenge facing Bangladesh is to accelerate a broad based growth and launch a scaled-up attack on poverty, building on the incremental possibilities of existing efforts and adopting new and more effective initiatives.

The present paper seeks to provide a brief assessment of poverty reduction policies and programs in Bangladesh and identify major challenges for the future. The paper is organized as follows. Section 2 reviews recent poverty trends and growth performance with a view to explain changes in poverty incidence. Section 3 highlights the routes to poverty reduction that are emphasized in Bangladesh. Finally, Section 4 summarizes major policies and institutional measures necessary to accelerate poverty reduction efforts in the country.

⁴ The production and employment programs under the Fifth Plan aim to increase production in both farm and non-farm sectors, generate self-employment opportunities, increase income through productive activities, and develop human resources mainly through training. The programs are designed as a package consisting of organization/social mobilization of the targeted poor into formal or informal groups, dissemination of technology and training, microcredit for income-generating activities, capital formation through savings, and market information and promotional activities. The assetless/landless and functionally landless (owning not more than 0.5 acre of land) and small farmers (owning land upto 1.5 acres) are the target groups under these programs. Moreover, the vulnerable non-poor are also targeted. See Planning Commission 1998, p. 159.

2. Poverty and Growth Performance: Achievements and Challenges

In a low-income country such as Bangladesh, the developments in the labor market are important determinants of poverty. The role basically derives from the limitations of the labor market in providing productive and gainful employment opportunities to the large majority of the labor force. With low skills and limited scope of employment in the formal sector, the vast majority subsists in low-productive informal activities with limited ability to provide decent incomes and move out of poverty. It is important, therefore, to examine the trends in poverty in relation to changes in the labor market and employment situation in the country.

2.1 Recent Trends in Poverty

The inter-temporal estimates of poverty, based on data collected at the household level, show substantial variations due to differences in underlying assumptions and methodologies.⁵ Nevertheless, some trends can be discerned with available estimates (Table 2.1). Since the mid-1980s, both rural and urban poverty declined although the incidence of

Table 2.1
Incidence of poverty in Bangladesh

Year	Head-count ratio (per cent)			Number of poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1983/84	59.6	50.2	58.5	50.3	5.6	55.9
1988/89	59.2	43.9	57.1	54.1	6.2	60.3
1991/92	61.2	44.9	58.8	58.4	7.2	65.6
1995/96	56.7	35.0	53.1	57.8	7.1	64.9
1997	46.8	43.4	46.0	45.3	12.9	58.2
1999	44.9	43.3	44.7	42.4	15.4	57.8

Note: The figures for 1983/84 to 1995/96 are based on HES while those for 1997 and 1999 are taken from PMS. The poor in the HES are estimated using the cost of basic needs (CBN) method and are taken as those living below the poverty line which corresponds to an intake of 2122 kcal/person/day and a nonfood allowance corresponding to nonfood expenditure among households whose food expenditure equals the food poverty line. The poverty lines in the PMS use the food energy intake (FEI) method and refer to calorie intake of 2122 kcal/person/day in rural areas and 2112 kcal/person/day in urban areas. The number of the poor has been derived using estimated populations and its rural-urban distribution implicit in respective surveys.

Source: World Bank 1998, BBS 1998, 2001.

⁵ The typical household surveys, which are nationally representative, include the Household Expenditure Survey (HES) and the Poverty Monitoring Survey (PMS) of the Bangladesh Bureau of Statistics (BBS). Several alternative poverty estimates from the same data source are available which highlight important issues of measurement of poverty, aggregation of numbers, choice of calorie norms, and other dimensions. For an analysis of the implications of different methodologies on poverty estimates, see Ravallion 1990, Ravallion and Sen 1996.

rural poverty remained higher than urban poverty. Over the 1984-1999 period, the absolute number of the poor increased to 58 million from 56 million – an increase of 2 million over a period of 15 years – when total population increased by about 34 million. During the period, the number of rural poor declined from 50 million to 42 million while the number of urban poor recorded an increase – from 6 million to 15 million.⁶ Despite variations in the rate of poverty reduction across different sub-periods, the broad trends highlight the following:

- The overall incidence of poverty in the country has been declining though the rate of decline is slow at less than 2 per cent per year;
- Although incidence of rural poverty experienced some increase in the late 1980s, a faster decline has taken place in the 1990s. Changes in the definition of rural and urban areas, however, have significant implications on these rates;
- The incidence of urban poverty has been declining consistently since the 1980s. The rate of decline, however, slowed down in the late-1990s; and
- The absolute number of the poor started to decline since the mid-1990s.

In summing up, changes in income poverty since the 1980s highlight two basic points. First, the overall progress in poverty reduction is quite modest.⁷ Between 1983/84 and 1995/96, rural poverty declined by only 3 percentage points. Given the fact that nearly 80 per cent of the poor live in rural areas, despite the decline of urban poverty by 15 percentage points during the period, total poverty declined by only 5 percentage points. Second, compared to the instability in poverty reduction in the 1980s, poverty has declined consistently in the 1990s.

2.2 Changes in Human Poverty

⁶ The increase in the number of urban poor vis-a-vis the declining number of the rural poor does not necessarily indicate migration of the poor from rural to urban areas. While rural-urban migration of the poor is a reality, the change in the definition of urban areas between the HES and the PMS appears to be a major contributory factor in increase in the number of urban poor in the PMS. This is revealed in the share of urban population in total population implicit in the two surveys. For instance, the share of urban population in 1995/96 HES is 16.5 per cent while the corresponding shares in 1997 and 1999 PMS are 23.5 per cent and 27.3 per cent respectively.

⁷ The slow progress in poverty reduction is robust to the choice of poverty measures. All available studies indicate similar decline in terms of distributionally sensitive poverty measures e.g. poverty-gap and squared poverty-gap indexes. See Mujeri 2000.

In Bangladesh, the human development index (HDI) value nearly doubled between 1960 and 1992 from 0.166 to 0.309 yielding an annual average rate of increase of 2.7 per cent. The progress has been rapid in the 1990s with a HDI value of 0.485 in 1998/99 (BIDS 2001). This indicates a faster pace of human development than the rate of economic growth over the period.

The human poverty index (HPI), on the other hand, measures the distribution of progress in human development and shows the extent of human poverty.⁸ The HPI value has declined consistently since the 1980s. Compared to 61.3 per cent in 1981-83, the HPI value has been 47.2 per cent in 1993-94 which further declined to 41.6 per cent in 1995-97 (BIDS 2001). These results indicate that Bangladesh achieved faster progress in reducing human poverty than income poverty. The average rate of decline in HPI has been 2.8 per cent per year since the early 1980s compared to 1.8 per cent for income poverty. Moreover, the progress in reducing human poverty has been faster in the 1990s than in the preceding decade.

2.3 Changes in Inequality

The nature of impact of economic growth and other macroeconomic changes on poverty is influenced by changes in the distribution of income and consumption. The favorable impact of economic growth on income poverty may be reduced if growth leads to increased income inequality. In Bangladesh, the inequality in the distribution of consumption is lower than that of income and wealth.⁹

In the backdrop of a fairly modest rate of economic growth, inequality increased sharply in the early 1990s which coincided with the period of rapid trade liberalization (Table 2.2). The Gini index of consumption expenditure in both rural and urban areas remained largely unchanged till 1991/92. The urban Gini index, however, increased to 37 per cent in 1995/96 from 32 per cent in 1991/92. Similarly, inequality in rural areas rose to 29 per cent from 26 per cent over the period. In case of income inequality, the trends were similar. The

⁸ The HDI value gives the overall progress in achieving human development in three basic dimensions measured by life expectancy, educational attainment and income. The HPI is a composite index of deprivation in three basic dimensions of human life: a long and healthy life, knowledge and economic provisioning. For details on indicators and computation methodology, see UNDP 2000.

⁹ Although information on inequality of wealth is scanty, the ownership pattern of productive assets reveals marked variations across rural and urban areas and among poor and non-poor households. The value of assets per urban household is estimated at almost three times that of rural household on average. For the non-poor households, the average asset value is twice that of the poor in rural areas. In urban areas, the disparity is much higher: the average asset value of the non-poor is five times that of the poor. See Mujeri 2000.

Gini index in both rural and urban areas increased sharply during the mid-1990s. Urban inequality increased more than rural inequality and the disparity between rural and urban areas widened in the period (World Bank 1998).

Table 2.2
Changes in Growth and Inequality

	Poverty Line (Tk./person/month)	Consumption (Tk./person/month)	Consumption/ Poverty Line (%)	Gini Index (%)	
				Consumption	Income
Urban					
1983/84	301.72	396.53	131	29.8	37.0
1988/89	453.65	695.19	153	32.6	38.1
1991/92	534.99	817.12	153	31.9	39.8
1995/96	642.58	1233.06	192	36.7	44.4
Rural					
1983/84	268.92	284.84	106	24.6	35.0
1988/89	379.08	435.39	115	26.5	36.8
1991/92	469.13	509.67	109	25.5	36.4
1995/96	567.00	658.45	116	28.8	38.4

Source: BIDS 2001, BBS 1998.

The sharp increase in income inequality during 1991/92 and 1995/96, when Gini coefficient increased by nearly 6 per cent in rural areas and 12 per cent in urban areas, indicates a significant loss of potential of the growth process in reducing income poverty due to its inequalising nature.¹⁰ An important concern is, therefore, to examine what are the sources which led to increased inequality during the 1990s. The changes in income inequality and its sources over the period 1991/92 and 1995/96 are given in Table 2.3.¹¹ In terms of sources, nearly four-fifths of rural income accrue from farming, wages, and non-farm enterprises. During the period, the shares of wages and non-farm income increased while the share of farm income declined. Except for wages, the concentration ratios of other sources of rural income are relatively high and, in most cases, the concentration ratios increased in 1995/96 compared to 1991/92. With a few minor exceptions (e.g. rental value of

¹⁰ There exists strong evidence that inequality matters for poverty reduction and high inequality dampens the impact of growth on poverty. When economic growth is accompanied by rising income inequality, opportunities are missed for poverty reduction. See Bruno et. al 1998, Ravallion 1997.

¹¹ Since changes in income and consumption inequalities are similar, we shall focus on income inequality only. The estimates of Gini ratios for both rural and urban income distribution in the Table are lower than those presented in Table 6 due to some methodological differences in definition of income and method of ranking between the two studies. For details on the differences, see Khan and Sen 2001. While the levels of inequality are different, the change in inequality is similar in both rural and urban areas in both the estimates.

housing and miscellaneous income), increased inequality in all major sources of income led to an increase in rural income inequality during the period. In urban areas, two sources – wages and non-farm enterprises – contributed 65 per cent of total income in 1991/92 which increased to 74 per cent in 1995/96, largely due to increase in the share of non-farm enterprises. A significant factor, however, was the sharp increase in the concentration ratio of income from non-farm enterprises which was the single largest contributory factor in increasing urban income inequality during the period. The above indicates that, in both rural and urban areas, the present structure of non-farm enterprises contributes to accentuation of income inequality. The expansion of non-farm enterprises, in the absence of countervailing measures, is a source of potential inequality in the country.

Table 2.3
Sources of Income Inequality, 1992-1996

Income Source	Rural				Urban			
	Share of total income (%)		Gini/concentration ratio		Share of total income (%)		Gini/concentration ratio	
	1991/92	1995/96	1991/92	1995/96	1991/92	1995/96	1991/92	1995/96
Farm income	41.5	35.0	0.332	0.338	6.1	5.8	0.115	0.226
Wage income	21.4	27.0	0.102	0.143	36.6	35.8	0.276	0.266
Non-farm enterprises	15.3	19.1	0.224	0.329	28.4	37.7	0.306	0.464
Property income	0.9	1.4	0.552	0.572	3.7	3.4	0.643	0.644
Transfers	10.9	9.6	0.364	0.599	9.3	7.2	0.427	0.581
Rental value of housing	7.7	5.6	0.351	0.276	9.2	6.8	0.434	0.410
Miscellaneous income	2.3	2.3	0.426	0.403	6.7	3.3	0.424	0.442
Total	100	100	0.276	0.310	100	100	0.327	0.389
Annual per capita income (current Tk.)	6,744	7,583	...	...	10,566	14,846	...	...

Source: Khan and Sen 2001.

2.4 Poverty Profile and Determinants

In adopting appropriate strategies for poverty reduction, it is important to consider poverty characteristics and see which sets of factors have a strong influence on income and well-being of the poor. The poor have substantial heterogeneity both in terms of socioeconomic, spatial, gender and other differences and household or individual attributes. Physical and human resource endowments, features of household demography, nature of occupation and employment, and similar indicators are useful pointers in identifying who the poor are.

In rural areas, poverty is higher among those who possess little or no land, who have no education and marketable skills, and who depend on wage labor for livelihood. Agricultural labor households and tenants have a high incidence of poverty as do non-agricultural casual workers and self-employed workers with little capital. About 78 per cent of the households who report agricultural wage labor as their principal occupation live in poverty (BBS 1998). In urban areas, households headed by casual and manual laborers have a high incidence of poverty as do participants in the informal sector with little assets. The above characteristics of poverty indicate several factors which can have significant influence in increasing the incomes of the poor. Access to land and non-farm activities, education, remittances, and basic infrastructure like road and electricity are important avenues to reduce both incidence and depth of poverty (BIDS 2001). In short, poverty reduction in Bangladesh needs both measures to address underlying causes of poverty and practical interventions to mitigate poverty. Obviously, high economic growth that generates decent income and productive employment for the poor is the key element to widen socioeconomic opportunities, generate resources for the government to provide basic services, and increase returns from human and non-human investments. In addition, direct efforts through several channels e.g. capability-raising by education, health and nutrition interventions; targeted employment and safety-nets programs; and improvements in non-material dimensions of well-being including gender gaps, insecurity, powerlessness, and social exclusion are important dimensions to enhance the poor's prospects in pursuing sustainable livelihood options.

2.5 Economic Growth and Poverty

The interfaces of economic growth and poverty are governed by complexities of the pathways through which growth affects poverty in the country. Moreover, the growth impact on different socio-economic groups varies depending on the ability of specific groups to adjust to changes in the meso-environment due to economic growth. This, in turn, depends on several factors that influence the capacity of households to respond to economic opportunities. The distribution of land, availability of transport and communications infrastructure, and command over human resources, for instance, are important determinants of the ability of the poor to gain from economic growth. Similarly, institutions and processes which govern the access and participation of the poor in socio-economic transactions

significantly influence the ability of the poor households to cushion against adverse consequences and take advantage of new opportunities.

Economic Growth

Economic growth is the key to sustained poverty reduction and, unless growth seriously worsens income distribution, poverty incidence is expected to decline as average income increases. It may be pertinent to examine the growth performance of the Bangladesh economy to see whether this has led to some change in the incidence of poverty. The average rate of GDP growth during 1984-1992 was 3.9 per cent per year which increased to 4.6 per cent during 1992-1996 and further to 5.5 per cent afterwards (Table 2.4). A notable feature is the significantly higher growth of agriculture during the late 1990s. In per capita terms, GDP increased at a much higher rate in the 1990s: 4 per cent per year in the late 1990s compared with less than 2 per cent in the 1980s.

Table 2.4

Growth Performance of the Bangladesh Economy

	1983/84-1991/92	1991/92- 1995/96	1996/97- 2000/01
GDP	3.9	4.6	5.5
Agriculture	2.4	1.6	5.3
Industry	6.3	8.2	6.8
of which:			
Manufacturing	6.1	8.2	6.1
(Large and medium scale)	(6.2)	(8.3)	(6.3)
(Small scale)	(5.7)	(7.9)	(5.7)
Services	3.7	4.3	5.1
Per capita GDP	1.6	2.7	4.0

Note: The growth rates are expressed at constant 1995/96 prices.

Source: Author's calculation.

Despite relatively high growth in per capita GDP, it is observed that poverty declined at a slow rate in the 1990s. Moreover, the number of poor people increased from 56 million in 1983/84 to 65 million in 1995/96 and remained at 58 million in 1999. It is important, therefore, to analyze why poverty declined slowly despite better economic performance in the 1990s.

While data limitations do not permit us to conduct any rigorous analysis into the nature of relationships between economic growth and poverty, available evidence points to several factors which constrained the capacity of economic growth to reduce poverty during the period. It is clear that a growth rate of 4-5 per cent per year is not rapid enough to make any significant impact on poverty.¹² Similarly, despite the emphasis on poverty reducing role of agriculture in Bangladesh, various processes that ‘trickle down’ agricultural benefits to the poor have worked slowly during the 1990s creating less than anticipated impact on poverty.¹³ The trends for different categories of labor, for instance, indicate that the real wage rate of agricultural laborers mostly stagnated compared to other groups (Table 2.5).¹⁴ The inequitable socioeconomic structure that persists in the rural society also constrained the ability of the poor (e.g. landless and marginal farmers) to derive proportionate benefits from technological changes.¹⁵ As a result, despite higher growth performance in the 1990s, the overall impact on poverty has not been significant.

Table 2.5

Real Wage Rate Indexes by Labor Categories

(1969/70 = 100)

Year	General	Agriculture	Manufacturing	Construction
1983/84	90	75	95	99
1985/86	95	82	102	100
1988/89	107	92	110	120
1991/92	107	98	113	104
1995/96	114	104	123	105
1997/98	122	107	137	114
1998/99	118	102	131	113
1999/00	121	103	137	116

Source: MOF 2001.

¹² The experience of Southeast Asian countries (e.g. Malaysia, Thailand and Indonesia) before the East Asian crisis suggests that high growth rates can lead to a decline in both the proportion and absolute number of the poor. One may also note the case of China where, despite relatively high economic growth since the late 1980s, success in poverty reduction is less spectacular compared to earlier periods when economic growth was relatively low. This indicates that, along with a high rate, structure of economic growth is important which determines the mechanisms through which benefits of growth reach the poor.

¹³ For evidence on links between agricultural growth and poverty, see Mujeri 2000, World Bank 1998. The poverty reduction impact of agricultural growth can, however, vary widely depending on its nature. In the Indian context, for instance, several factors e.g. inequality in endowments, market imperfections, and low returns on agricultural assets have been highlighted which tend to limit the benefits of agricultural growth from reaching the poor. See Bardhan 1985, Gaiha 1995, Gaiha and Deolalikar 1993.

¹⁴ For the poor households, a major share of income originates from wage labor in agricultural and non-agricultural activities. A recent survey indicates that agricultural and non-agricultural daily wages constitute 33 per cent and 15 per cent of the incomes earned by poor rural households. See BBS 2000.

¹⁵ Land is the most important asset in the rural society. In 1983-84, 6.4 million households (46 per cent of rural households) were landless (owning less than 0.49 acre) and the number increased to 10 million (56 per cent of rural households) in 1996. During 1996, small and marginal holdings (with less than 2.5 acres) accounted for 81 per cent of the farms with 41 per cent of operated land. See BBS 1999.

An important issue, however, is to see how the gains have been shared. We present here some evidence on how incomes have been shared both spatially and by broad income groups. It appears that the past growth pattern may have contributed to a widening of income inequities. In real terms, the average per capita income increased by more than 26 per cent between 1985/86 and 1995/96. However, the per capita income of the poorest 20 per cent of the households increased by only 9 per cent while that of the richest 20 per cent by 37 per cent (Table 2.6).¹⁶ The percentage increase during 1992-1996 is much higher for the richest

Table 2.6

Trends in Real Per Capita Income

(Tk at 1984/85 constant prices)

Year	Per capita income			Ratio of poorest 20% and richest 20%
	Average	20 per cent richest households	20 per cent poorest households	
1985/86	4,351	10,085	1,531	0.15
1988/89	4,574	10,566	1,519	0.14
1991/92	4,909	11,013	1,600	0.15
1995/96	5,504	13,782	1,671	0.12

Source: BBS 1998.

households – 25 per cent – compared to only 4 per cent for the poorest households. Similar increases during 1986-1992 were 9 per cent for the richest 20 per cent households compared to 5 per cent for the poorest 20 per cent households. The 1990s also witnessed widening spatial inequalities. Some urban pockets e.g. Dhaka, Chittagong and Khulna seem to have experienced relatively higher per capita income growth during the 1990s compared to the remaining regions of the country except the Chittagong Hill Tracts (Table 2.7). Regional disparities, as measured by the coefficient of variation of regional per capita income, also increased. The evidence points that the gains associated with economic growth in the 1990s have been unevenly shared both among various income groups and over different geographical regions of the country.

¹⁶ The estimates are based on HES data on income distribution. For example, the income of the poorest 20 per cent of households is estimated as the product of national income times the share of these households as given by income distribution statistics. Per capita income is derived by dividing by one-fifth of total number of households. One limitation of the approach, however, is the neglect of movements of households across income categories over different periods. Despite the caveat, the results show important aspects of inequality.

Table 2.7**Regional Variation in Per Capita GDP**

(Country average at constant 1984/85 prices in 1989/90 = 100)

Region	1989/90	1998/99	Total variation
Dhaka	101.7	143.1	41.4
Mymensingh	84.0	107.1	23.1
Jamalpur	95.6	120.5	24.9
Tangail	91.2	114.5	23.3
Faridpur	98.2	122.1	23.9
Chittagong	151.9	202.4	50.5
Chittagong Hill Tracts	297.1	398.6	101.5
Noakhali	84.4	101.4	17.0
Comilla	93.6	119.1	25.5
Sylhet	98.6	127.3	28.7
Rajshahi	83.7	103.0	19.3
Dinajpur	96.4	115.2	18.8
Rangpur	84.4	103.1	18.7
Bogra	99.2	118.6	19.4
Pabna	73.0	93.3	20.3
Khulna	111.3	144.7	33.4
Barisal	105.2	120.0	14.8
Patuakhali	110.8	135.4	24.6
Jessore	97.3	125.2	27.9
Kushtia	98.0	120.3	22.9
Country average	100.0	131.0	31.0
Coefficient of variation (per cent)	47.1	48.1	...

Source: BBS 1999.

Labor Market Developments

In Bangladesh, the labor force has grown at a much faster rate than the growth in population and the demand for labor. During 1961 to 1991, total population increased by nearly 120 per cent – from 50.8 million to 111.5 million – while the labor force grew from 16.9 million to 51.2 million – an increase of 203 per cent. The population in the country

increased by about 17 million between 1989 and 1995/96 while the net entrants into the labor force was over 8 million. Although non-agricultural sectors have been the main engine of job creation during the 1990s, agriculture is still the largest sector of employment with more than 63 per cent of total employed labor of 54.6 million in 1995/96 (BBS 1998).

Despite overall increase in the level of employment, significant imbalances in the labor market persist. According to the Labor Force Survey, total civilian labor force increased from 50.7 million to 56.0 million between 1989 and 1995/96 (that is, by more than 10 per cent). Over the same period, the number of employed persons increased by about 9 per cent – from 50.1 million to 54.6 million. This indicates that the unemployment rate in the country more than doubled during the period from 1.2 per cent to 2.5 per cent.¹⁷ A more serious concern, however, is the high rate of underemployment.¹⁸ The problem of underemployment reflects the fact that more than one-third of the employed labor work less than 35 hours a week, a low level for a developing country such as Bangladesh (Table 2.8).

Table 2.8

Underemployment in Bangladesh, 1995/96

(Person aged 15 and over)

Category	Bangladesh	Urban	Rural
Absolute unemployed persons ('000)	1,266	401	865
Unemployed persons (unpaid workers<15 hrs/week; '000)	1,802	163	1,639
Underemployed persons (<35 hrs/week; '000)	18,903	1,942	16,961
Total unemployed and underemployed ('000)	21,971	2,506	19,465
Underemployment rate (% of total labor force)	38.5	22.1	42.1
Male	13.7	10.9	14.5
Female	79.0	54.2	82.4
Unemployment and underemployment rate (% of total labor force)	39.2	24.6	42.5

Source: BBS 1998.

This, combined with the relatively low female participation rate (in 1995/96, as per the 'usual' definition, the female participation rate for persons aged 10 and above was only 18.1

¹⁷ The definition of unemployed persons in the LFS is, however, unrealistic. According to the LFS, any person in the civilian labor force not doing any work at all (even an hour) and engaged as unpaid family helper and working less than 15 hours during the reference week is treated as unemployed.

¹⁸ Any person working less than 35 hours during the reference week is considered as underemployed in the LFS.

per cent compared to 77 per cent for males), suggests that there exists significant ‘surplus labor’ in the country. Moreover, the situation seems to have deteriorated over time. During 1989, 43 per cent of the employed labor worked for less than 40 hours a week and the share increased to more than 49 per cent in 1995/96. Several other disquietening features of the labor market may also be noted e.g. disproportionately high unemployment rates for the youth; labor market discrimination against women; widespread existence of child labor; and low education and skill level of the labor force.¹⁹

Another feature of the emerging trends in the labor market in the 1990s which has significant poverty implications is the growing informalization of employment.²⁰ The bulk of employment generation during the period have taken place in the informal sector. Some estimates put informal sector employment at 59 per cent of urban and 73 per cent of rural employment outside agriculture (Mahmud 2001). Moreover, more than 79 per cent of those employed in the informal sector during 1995/96 are categorized as ‘unpaid family labor’ or ‘self-employed’. This indicates that increasing landlessness in rural areas has largely pushed the rural labor force out of agriculture into low productivity self-employment activities in the informal sector. In the event that such informal employment is a supplement to farm employment, even low returns from informal sector activities contribute to increased household incomes and consequently increase in welfare of labor households. However, if informal employment becomes the only source of income of the participants, which has largely been the case in Bangladesh, expansion of informal sector employment dominated by traditional low productive activities provides only subsistence to the participants and become a source of ‘distress employment’ for the poor labor households.

Changes in Food Sector

The process of liberalization along with market oriented reforms during the 1990s played significant roles in bringing changes in organizational and production structure in agriculture in the country. The post-reform period witnessed decline in real agricultural prices and increase in agricultural output and productivity. The five-year post-reform period

¹⁹ Some evidence from the 1995/96 Labor Force Survey may be cited. Around 80 per cent of women in the labor force are unpaid family workers compared to 20 per cent for men; almost 20 per cent of children (aged between 5 and 9) work sometimes in hazardous occupations and two-thirds of working children are engaged in agriculture, forestry and fishery mostly as unpaid family helpers or day/casual workers; and 51 per cent of labor force (aged 15 and over) have no education and another 25 per cent have education at the primary level.

²⁰ There exist problems in defining informal employment which relate to setting the formal-informal divide in the economy. The informal sector activities usually have several characteristics e.g. minimum capital requirement with low entry barriers, dominance of self-employment and employment of unpaid family workers, informal contractual arrangements for hired labor, labor-intensive technology requiring low skills, and operating mostly outside formal legal and institutional framework.

(1993/94 to 1997/98) compared with the five year pre-reform period (1981/82 to 1985/86) experienced a decline in real agricultural prices of nearly 3 per cent and increases of agricultural output and agricultural productivity of 36 per cent and 16 per cent respectively (Mujeri 2000). Despite these developments, per capita agricultural output largely stagnated since the 1980s. The following alternative indices for the period 1981-2000 indicate that the growth of agricultural output has barely kept pace with growth of population:

$$\ln \text{PCFP} = 4.525 + 0.0026 T \quad R^2 = 0.097 \quad \dots \quad \dots \quad \dots \quad (1)$$

(1.39)

$$\ln \text{PCVA} = 4.562 + 0.0030 T \quad R^2 = 0.214 \quad \dots \quad \dots \quad \dots \quad (2)$$

(2.22)

$$\ln \text{PCAP} = 4.516 + 0.0060 T \quad R^2 = 0.567 \quad \dots \quad \dots \quad \dots \quad (3)$$

(4.85)

where PCFP = index of per capita food production, PCVA = index of per capita value added in agriculture, PCAP = index of per capita agricultural production, T = time trend, and the terms in parentheses refer to t values.

The stagnation is particularly evident in per capita food production and value added which parallels the observed lack of any significant improvement in poverty incidence, particularly in rural areas, during the period. We have noted earlier that developments in the labor market have not helped much to increase real wages in agriculture to benefit the poor. In this section, we examine changes in real consumption level of the poor and food prices which have significant poverty implications.

The trends since the mid-1980s indicate that the relative price of food in rural areas remained mostly unchanged while, in urban areas, it has increased (Table 2.9). Despite some changes in the consumption pattern, the proportion of household expenditure on food is still high: around two-thirds in rural areas and a half in urban areas. Such proportions are higher for the poor than the non-poor. It is, however, the net purchasers of food who are directly affected by changes in food prices. Although there is no direct information on the number of net producer or consumer households, some estimates can be made on the basis of the important staple food, rice. The urban households are usually net purchasers but a substantial percentage of rural households also belong to the category. According to 1996 Agricultural Census, 29 per cent of rural households either do not own homestead land or own homestead

Table 2.9**Trends in Relative Food Prices**

							(Per cent)
		1986/87	1991/92	1995/96	1996/97	1998/99	1999/00
Measure 1							
	Rural	101.3	100.1	99.0	97.9	100.2	100.5
	Urban	101.1	100.5	101.2	100.1	104.8	105.6
Measure 2							
	Rural	103.9	100.2	97.1	94.1	101.2	101.5
	Urban	102.5	101.1	102.9	100.1	111.9	114.0

Note: Measure 1 gives the ratio of value of food component of consumer price index to value of consumer price index itself whereas Measure 2 provides the ratio of values of food component to nonfood component of the index. The rural and urban relative food prices are based on all rural and all urban consumer price indexes with 1985/86 as the base.

Source: BBS 1999, MOF 2001.

land but no cultivated land. These households are, therefore, net purchasers of food. Moreover, farm households with inadequate land are also dependent on the market for meeting their food requirements. Some estimates put a lower bound of nearly 87 per cent of rural households, consisting of non-farm and small farming households, as net purchasers of food among all rural households (Mujeri 2000). Even some of the medium farmers, who have small marketable surplus, are affected by changes in food prices since they typically sell the surplus after the harvest when prices are likely to be low and purchase food during the lean season when prices are high. It is evident that the vast majority of the households in the country are net purchasers of food and changes in relative food prices in the 1990s have not made any significant positive impact on poverty status of resource-poor households in the country.

2.6 Priorities for Poverty Reduction

Given the slow rate of poverty reduction in the past, a key concern for Bangladesh is to accelerate economic growth. This requires growth-enhancing public policies and institutional support to promote the private sector. In addition, in bringing poverty focus to economic growth, five broad sectoral areas need attention:

- Human and social development;

- Physical infrastructure;
- Economic management;
- Regional balance in development; and
- Good governance.

While a balanced attack on all fronts may not be feasible at a time due to resource constraints, the macro-policies need to ensure that growth and redistributional effects reinforce each other to lead to stronger impact on poverty reduction. The key issues are to improve the macro-environment so that growth is accelerated and more jobs are created, better financial services and good governance are provided, and social costs of policy reforms are mitigated. If the constraints that prevent the poor from availing the new opportunities are not removed, future growth will be less pro-poor and less equitable.

3. Poverty Reduction in Bangladesh: All Routes Matter

With many roots and multi-dimensional characteristics, all routes matter for poverty reduction in Bangladesh. As a part of the strategy, these routes combine two elements: strategic measures to address underlying causes of poverty, and practical interventions to mitigate poverty.

3.1 Approaches to Poverty Reduction

In Bangladesh, the approach to poverty reduction, particularly reduction of income poverty, covers several channels. An important channel is economic growth. Although the impact of economic growth on poverty is somewhat indirect, high economic growth, along with measures to influence the ‘quality’ of growth such that its poverty reduction capacity is increased, is an important element of a successful anti-poverty strategy in the country. In addition, direct efforts to reduce poverty cover several routes e.g. capability-raising of the poor by education, health and nutrition interventions; targeted employment, and safety nets programs; and improvements in non-material dimensions of well-being including gender gaps, insecurity, powerlessness and social exclusion. In short, the approach sets three broad imperatives in the fight against poverty:

First, opportunities for employment and productivity growth are created so that incomes rise and the poor are able to move out of poverty;

Second, measures are put in place to ensure that access to basic services is equitable so that the poor can benefit; and

Third, special measures are taken to reduce the vulnerability of the poor to unforeseen events and shocks.

Over the years, significant diversity has emerged among each of these broad channels. The growth enhancing interventions, along with economic sectors and infrastructure development, have covered elements of good governance and an enabling environment such that growth prospects are enhanced. Similarly, the direct approach to reducing poverty has been broadened to cover different programs. Along with microcredit based employment programs which rely more on self-employment generation, other types of income transfer programs have been evolved. At present, the Government’s targeted programs cover a broad

range of activities: food aid to create safety-nets for the poor, building and maintenance of rural infrastructure, rural development programs, primary and girls education programs, microcredit and other specific welfare programs. While the initial focus of most of these programs was on ‘transfer elements’ to supplement consumption, create employment opportunities, and help the poor to acquire access to income generating assets, significant changes have taken place in approach and design to strengthen their development impact. While such diversity in targeted anti-poverty instruments serves the immediate needs of different poverty groups, this also raises a moot policy issue: What should be the relative priority of different instruments for ensuring accelerated poverty reduction? In view of significant complementarities among these programs as well as observed differentials across different poverty groups, one probably may not suggest an ‘either-or’ approach and attempt to focus on program combinations keeping specific contexts in view.

In general, the pro-poor policy agenda in Bangladesh seeks to accelerate economic growth, enforce higher investments in social sectors and basic services, enhance the poor’s crisis-coping capacity and build up their asset base, and promote targeted programs. The pursuit of pro-poor economic growth, with emphasis on the agriculture sector, is necessary for Bangladesh to enhance the income of the poor creating direct impact on income poverty. The increased public expenditure on social sectors has a strong bearing on human poverty through raising the capability of the poor by education, health, nutrition and other interventions. Public spending on social security, particularly targeted to the poor, helps in mitigating the severity of poverty and reduce their vulnerability and social exclusion. In view of the poverty profile and resource constraints, social sector investments are important for Bangladesh for accelerating growth and enhancing the capability and productivity of the poor. While Bangladesh has made some progress in the above areas, as reflected in the declining trends in poverty in recent years, the expansion of targeted programs has been significant in providing access to income and social development inputs for the poor.

3.2 Targeted Programs

As a means of relieving poverty and famines, targeted programs (e.g. provision of employment on public works) have a long history in the Indian Sub-continent. Even during the late nineteenth century, the Indian famine codes recommended such forms of ‘relief’.²¹

²¹ For useful discussions on the historical perspective, see Bhatia 1967, Aykroyd 1974.

Since then, various types of intervention have been experimented and, as we have noted earlier, different forms of targeted programs exist in Bangladesh.

Within the targeted approach, four broad types of programs can be distinguished: (i) food assisted programs; (ii) rural infrastructure development programs; (iii) microcredit programs; and (iv) special transfer programs.

3.2.1 Food Assisted Programs

Bangladesh has one of the largest systems of targeted food transfer programs in the world through which, since 1993/94, more than 1 million metric tons of foodgrains are channeled to the target population. The food assisted programs generally act as conduits of transfer to enhance household food security and, in many cases, as a means of promoting human development of the poor. During the 1990s, resources channeled through these programs increased significantly (Table 3.1). The share of foodgrains distributed through food assisted programs in the Public Food Distribution System (PFDS) also rose sharply in the 1990s: from less than 30 per cent in the early 1980s to over 80 per cent in the late 1990s.²²

Table 3.1

Resource Use Under Safety-Nets Programs

	(million Tk.)							
Program	1990/91	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Food-for-Works	4,248	7,517	5,585	8,108	8,360	7,156	8,060	9,340
Gratuitous Relief/Test Relief	...	3,465	4,008	2,561	2,587	2,102	2,720	1,930
Vulnerable Group Development	3,870	...	...	2,153	2,251	2,089	2,280	2,360
Vulnerable Group Feeding	...	...	...	...	762	5,848	2,290	2,170
Others	...	20	17	152	16	659	10	...
Total	8,118	11,002	9,610	12,974	13,976	17,854	15,360	15,800
Total as % of GDP	0.97	0.94	0.58	0.72	0.70	0.81	0.65	0.61

Source: MOF 2001.

The intention of all food assisted programs is to help the poor. There are, however, differences in objectives. Some programs aim at relief of immediate distress while others have varied development objectives (Table 3.2).

²² The remaining 20 per cent are distributed through 'monetized' channels e.g. Essential Priorities (subsidized foodgrain sales to members of armed and paramilitary forces, hospital and jail inmates), Other Priorities (subsidized sales to workers of government institutions, fire and civil defence department) and Open Market Sales (sales in open market to stabilize domestic process). For details, see del Ninno and Dorosh 1998.

Table 3.2
A Profile of Food Assisted Programs

Program	Main Objective(s)	Foodgrain Offtake (1999/00)	
		Volume (000 m tons)	%
Food for Work (FFW)	<ul style="list-style-type: none"> ● Generate employment for the poor, mainly in the slack (dry) season; ● Develop and maintain rural infrastructure. 	754.8	46.9
Food for Education (FFE)	<ul style="list-style-type: none"> ● Promote primary school enrollment and attendance, reduce drop-outs and improve quality of education. 	286.0	17.8
Vulnerable Group Development (VGD)	<ul style="list-style-type: none"> ● Assist disadvantaged women in rural areas, train in market-based income generating activities and provide functional education. 	216.7	13.5
Vulnerable Group Feeding (VGF)	<ul style="list-style-type: none"> ● Distribute foodgrain to needy families in periods of distress. 	149.1	9.3
Test Relief (TR)	<ul style="list-style-type: none"> ● Generate employment for the poor mainly in the rainy season (similar to FFW with lighter labor requirements) 	124.5	7.7
Gratuitous Relief (GR)	<ul style="list-style-type: none"> ● Provide disaster relief according to perceived needs ● 	20.3	1.3
Others	....	57.7	3.5
Total	....	1,609.1	100

Source: Food Assisted Program Documents.

Under the Food-for-Works (FFW) program, foodgrain is provided to generate seasonal employment for the extreme poor during the lean periods in exchange for work in rural infrastructure projects e.g. construction and maintenance of earthen roads, excavation of canals, and other work involving earth work. In the Vulnerable Group Development (VGD) program, about 0.5 million women-headed households receive 31.25 kg of foodgrain for a 18-months period cycle. The VGD objective is to enable the poor and destitute rural women to overcome food insecurity and low social status through providing three major inputs: food aid, development package, and graduation into NGO programs. The development package includes savings, group-based social awareness, functional education, skill training in income generating activities, and credit. The Vulnerable Group Feeding (VGF), Gratuitous Relief (GR) and Test Relief (TR) programs are designed to address transitory food insecurity problems of the vulnerable poor during floods and other emergency situations.

The Food for Education (FFE) program, which started in 1993/94, is designed to support poverty stricken households to send their children to schools by giving income entitlement through food. This enables the poor families to release their children from livelihood obligations and ensure regular primary school attendance. During 1999/00, the program was operational in 1,247 unions of the country covering 17,403 schools with 2.3 million students from 2.2 million families.²³

The safety-nets programs largely attract the vulnerable poor and those who depend on daily wages for livelihood due to their self-targeting nature. The temporary and seasonal nature of the programs, however, limit their ability to generate sustainable incomes and create significant poverty reduction impact.²⁴ Nevertheless, the weights of extreme poor households under the programs relative to rural income distribution indicate that benefits accrue mostly to target groups (Table 3.3). The bottom four income groups, who account for 22 per cent of the poorest rural households, display their overwhelming presence in the programs: 84 per cent in FFW, 93 per cent in VGD, and 75 per cent in TR.

Table 3.3
Targeting Performance of Selected Food Assisted Programs

Household income group (Tk./month)	Rural Population Share (1991/92 HES)	Population share in programs (Per cent)		
		Food for Works (FFW)	Vulnerable Group Development (VGD)	Test Relief (TR)
Less than 750	3.2	31.9	54.4	27.6
750-999	4.1	22.1	22.9	20.2
1000-1249	7.2	19.4	10.8	17.0
1250-1499	7.6	10.7	5.3	10.5
1500-1999	16.4	9.4	3.7	13.5
2000-2499	13.0	3.8	2.1	6.7
2500-2999	10.3	1.7	0.6	3.1
More than 3000	38.2	1.0	0.2	1.4
Total	100	100	100	100

Source: BBS 1994.

²³ Under FFE, the monthly entitlement is 15 kg of wheat (or 12 kg of rice) for one-child families and 20 kg of wheat (or 16 kg of rice) for more than one children.

²⁴ The efficiency of the programs in terms of unit cost of transfer is also somewhat similar. The cost of transferring Tk. 1 in benefit is estimated at Tk. 1.59 for FFE, Tk. 1.56 for VGD and Tk. 2.06 for FFW. The lowest cost of Tk. 1.32 is estimated for the Rural Maintenance Program (RMP) which employs women in labor intensive rural road maintenance work. See Ahmed and Billah 1994, Subbarao et.al 1997.

3.2.2 Rural Infrastructure Development Programs

The rural infrastructure development programs support building and maintenance of rural roads, bridges and culverts, small scale irrigation structures, development of trading facilities in rural markets, and creation of trading network. The Local Government Engineering Department (LGED), under the Ministry of Local Government, Rural Development and Cooperatives, is involved in the development of rural infrastructure including rural roads, growth centres, embankments and other physical facilities.

Another unique program of ‘cash for work’ in rural infrastructure development is the Rural Maintenance Program (RMP) which started in 1983. All the beneficiaries of RMP are women. The program employs 41,000 destitute rural women (with land ownership of less than 0.5 acre) from 4,100 unions of 435 upazilas in 61 districts as RMP crews. They are employed on a daily wage basis for maintenance of 15 miles of rural earthen road throughout the year. The RMP crews maintain a total of 42,596 km of rural roads in the country and remain in the payroll for a period of four years after which they graduate from the program. The crews are organized and provided with training on income generating activities during involvement with RMP to assist them in livelihood activities using their own savings.

3.2.3 Microcredit Programs

Over the years, Bangladesh has emerged as the pioneer in innovating and managing microcredit programs for income/employment generation along with social programs and support activities. Microcredit programs have a wide network in the country involving both the Government agencies and the NGO sector. The Bangladesh Rural Development Board (BRDB) disbursed more than Tk. 17 billion as microcredit to 1.3 million beneficiaries during 1991-2000.²⁵ There exist many other institutions which are involved in microcredit including the NGOs. The Palli Karma Sahayak Foundation (PKSF) is a Government financed institution which disbursed nearly Tk. 8 billion through NGOs till December 2000. The Grameen Bank’s cumulative disbursement of microcredit was Tk. 137 billion till December

²⁵ A Palli Bittahen Foundation has been established in 1999 for servicing the BRDB program for the assetless poor. The Foundation provides financial support, skill training and other services for social and economic empowerment of the target group. Microcredit is also distributed by different Government ministries, departments and agencies, estimated at Tk. 20 billion till 1999/00. The emerging trend is to implement microcredit programs by almost every ministry and their agencies. At present, the following ministries/agencies have some form of microcredit operations: Social Welfare; Women and Children Affairs; Labor and Employment; Fisheries and Livestock; Industry; Textiles; Agriculture; Local Government, Rural Development and Cooperatives; Land; Youth and Sports; Prime Minister’s Office; Finance Division; and Cabinet Division. See MOF 2001. The Nationalized Commercial Banks (NCBs) also channel microcredit, the cumulative disbursement being more than Tk. 70 billion till December 2000.

2000. While comprehensive statistics are difficult to arrive at, available information show that different microfinance NGOs distributed more than Tk. 109 billion to 10 million borrowers till June 2000 (CDF 2001). The microcredit activities, in general, are economically efficient which generate a net surplus for the poor borrowers. These programs also create positive impact on socioeconomic indicators including children's schooling, nutrition, and fertility (Khandker 1998). What is impressive about microcredit is its massive expansion in recent years covering nearly half of the target households (usually defined as those having half an acre of land).

3.2.4 Special Transfer Programs

The Government's targeted approach has expanded in recent years to cover special transfer programs for the hard-core poor and disadvantaged groups. The programs combine different components to provide economic security and address specific constraints and vulnerability of the targeted population.²⁶ Despite the variety and multiplicity of these programs, these are often not well-targeted, program administration is complex and costly resulting in leakages and high delivery costs, objectives are multiple and ill-defined reducing quality and accountability, and monitoring is inadequate with indicators that distort program objectives. The programs need a re-examination of underlying strategies to devise a streamlined approach that makes a better use of resources and promotes desired goals. Along with reforms in program design, increased effectiveness of special programs requires their integration with broader social development efforts (e.g. delivery of critical services like basic health care, education and skill, water and sanitation) which are not usually included within these programs.

The brief review of the targeted programs, as presented above, points to several generic problems that constrain their effectiveness in contributing to rapid poverty reduction in the country.

²⁶ The Ministry of Social Welfare implements poverty alleviation, welfare and rehabilitation programs for socio-economically and physically disadvantaged and distressed persons. The Ministry of Women and Children Affairs has programs for assetless women and female headed households. The Ministry of Youth and Sports undertakes youth development programs to encourage gainful self-employment. Several transfer programs may also be cited: old age pension program for distressed persons, allowances for distressed widows and poor women abandoned by their husbands, *asrayon* project for landless and homeless people, housing fund for loans/grants to homeless poor, employment banks, and *ekti bari ekta khamar* program for development of poor rural households. See MOF 2001.

First, the design of different targeted programs needs to respond effectively to specific disadvantaged groups e.g. long term assistance to those who are unable to sustain themselves through productive work (like handicapped and disabled persons, orphans, widows); vulnerable poor whose incomes are low and irregular and need support to smooth consumption during difficult periods; and the poor constrained due to asset and human resource limitations. The existing programs need restructuring in the light of their prime objectives and measures are needed to address many flaws: problem of screening and targeting, low degree of success, and limited coverage. The planning of these programs should highlight the fact that these entail a high opportunity cost in terms of foregone public goods and services;

Second, food assisted programs, in general, require streamlining in design and implementation for improved effectiveness and targeting;

Third, Increasing involvement of various Government ministries and departments in microcredit operations needs a careful review. This should examine budgetary implications of the loan fund and institutional capacity of the agencies to monitor and supervise microcredit operations with desired efficiency, impact, and viability. It may be a better option to keep involved only specialized Government agencies having mandate of microcredit activities (e.g. BRDB) with such operations; and

Fourth, special programs for disadvantaged groups are severely underfunded. These programs need review including *inter alia* eligibility criteria, and amount of entitlement. These programs should acknowledge the family as the strong link in providing safety nets and aim to strengthen the family as a unit. The promotion of a strong family will ensure basic care to all its members and enable to satisfy basic household functions.

The rapid expansion of microcredit along with its social development package has emerged as the cornerstone of self-employment generating strategy in the country. While the

role of promoting self-employment through microcredit in poverty reduction has been widely recognized, its viability as a sustained poverty alleviation approach also has limitations.

First, self-employment programs through microcredit, although by and large reach the target groups, are yet to cover the majority of the eligible households. In view of the vast number of the poor and limited availability of resources, the issue is: how feasible it is to expand the microcredit net to cover millions of poor households under poverty within a given time frame;

Second, self-employment under microcredit mostly relate to low-yield activities with feeble multiplier effects and limited vertical diffusion and linkages. As such, proliferation of such activities are not likely to be demand-sustained over time. Unless labor productivity can be raised, household-based production through self-employment will have limited ability to move the economy toward growth and sustained poverty reduction;

Third, microcredit based programs do not, in practice, help keep the poor households 'self-sustaining' through a one-shot credit delivery rather repeat loans are necessary to help them maintain income flows and retain whatever initial assets have been acquired through such loans. The number of cases of successful graduation from microcredit is few and continuing dependence on external resources is the reality;

Fourth, the existing microcredit-based self-employment generation strategy largely by passes specific poor groups, e.g. the hard-core poor, since the program design and implementation approach hardly suits their needs and demands; and

Fifth, despite its satisfactory performance in the micro-domain, a broader perspective of self-employment strategy requires that several 'missing links' with the macro-level be addressed e.g. productivity and quality control, technology/skill upgradation, marketing and other missing elements.

In the context of mass poverty that exists in the country, the strategy of household asset creation through self-employment is in itself a major attack on poverty. The issue, however, is to recognize that this is not the only attack that is adequate. Self-employment

generation is not a substitute for wage employment through sectoral expansion of employment opportunities and both should complement each other. So long as this perspective is maintained, the strategic differences between the approach to wage-based employment and self-employment promotion are not likely to lead to any undue shift in emphasis to household asset creation as the cost of public asset creation through growth-oriented programs.

4. Policies and Institutional Measures for Poverty Reduction

This section highlights policies and institutional measures that can accelerate poverty reduction in Bangladesh. Here we draw broad policy implications of the findings presented in previous sections. We also consider new and potential areas of policy interventions that can lead to faster poverty reduction in Bangladesh.

4.1 The Policy Framework

Poverty in Bangladesh needs to be addressed through different channels. The strategic elements of anti-poverty policies and institutions cover four broad avenues. The first set of policies expands the scope for *pro-poor economic growth* for increasing income and employment of the poor. The second fosters *human development* of the poor. The third provides *social safety net* to the poor against various anticipated and unanticipated income (consumption) shocks. The fourth set favorably influences *participatory governance* and enhances *voice* of the poor by strengthening women's empowerment, by improving the performance of the existing anti-poverty institutions and by removing the institutional hurdles that stand in the way of social mobility of the poor. It is, moreover, necessary to recognize the synergies that exist among these policies. Not all of these policies can be implemented at the same time because available resources are limited. It is, therefore, useful to start from the issues that are of common concern, or issues that are likely to yield maximum impact.

A. Increasing Pro-Poor Economic Growth

From the viewpoint of encouraging pro-poor economic growth, a number of macro and sector policies may be identified.

- **Macroeconomic Stability**

The strategy of non-inflationary pro-poor economic growth requires a stable macroeconomic framework. This would create an enabling environment for implementing policies crucial to accelerating the pace of poverty reduction. A fiscal policy that creates inflation, crowds out private investment, and undermines social sector allocations would have adverse implications for the poor. A wrong exchange rate policy would have balance-of-payment implications, distorted factor prices, lower long-term growth and hence less scope for poverty reduction. Lack of prudent regulations in the financial sector in the face of volatility

would hurt the small investors. A stable macroeconomic environment is, therefore, an important pre-requisite for success in poverty reduction.

- **New Technology for Agricultural Growth**

In Bangladesh, poverty reduction requires accelerated agricultural growth. Agricultural growth may be encouraged through various policies, ranging from new technology to credit for small farmers. The new HYV technology, particularly in rice, helped in the past to accelerate agricultural growth. The policy regime within which the success was achieved points to the importance of both the state and the market though some issues of unbridled privatization of the mode of delivery of agricultural inputs remain contentious. The pro-active role of the state in the dissemination of information as well as subsidized provision of inputs, however, played key roles in the success. Farm investments in irrigation also benefited from the liberalized import of agricultural machineries. Although agricultural growth accelerated in the second half of the 1990s, its sustainability remains questionable. The question of appropriate mix of incentives is important for the farmers, but incentives per se would not produce higher growth. The latter would critically depend on the ability to adopt new technology.

- **Agricultural Diversification**

With increase in per capita income, demand for non-rice (such as vegetables and pulses) and non-crop products (such as livestock, poultry, and fishery) will rise in the future at a fast rate. Fishery and livestock/ poultry sectors have grown rapidly during the 1990s, partly in response to these factors. Despite successive policy emphasis, crop diversification with considerable potentials for employment generation has failed to take off in Bangladesh. One proximate explanation of slow pace of agricultural diversification relates to the fact that the system of agricultural extension is not effective. Besides extension, the lack of adequate marketing, storage, credit and transport network remains a critical bottleneck in the diversification process. An efficient system of extension is necessary in the context of liberalized agricultural trade and priority attention needs to be given to this aspect of agricultural policy.

- **Credit Access**

The poor have limited access to credit. Moreover, existing imperfections in the credit market have adverse implications for poverty reduction. Due to lack of credit, the poor cannot cope with short-term exigencies arising out of sudden income (or consumption) shocks with a

drop in food entitlements and deterioration in the nutritional status. Limited access to credit also has implications for long-term intergenerational poverty. If the poor had access to credit, they could have financed educational expenses of their children as a way of climbing out of poverty.

There is a need for building upon the success of microcredit to service the credit needs of various segments of the rural poor. The mechanism for delivery of microcredit may be suitable for banking with women from middle-poor households, but may need to be modified for meeting the needs of small farmers who are at the threshold poverty line. Credit needs would vary for farm and non-farm borrowers, with different implications for seasonality in credit demand. The same is true of extremely poor households who have very different risk-bearing capacity. These are new institutional challenges that require innovations in the mode of credit delivery.

- **Rural Non-Farm Activities and Urban-Rural Links**

While technological progress in agriculture would accelerate output growth, for employment creation, non-farm activities need to expand to provide enough incentives for movement of labor from farm to non-farm sector. This, in turn, requires a steady growth in productivity in the non-farm sector.

As pointed out earlier, rural non-farm activities have played an important role in generating new sources of employment for the poor, but the productivity growth in the sector has been modest. The way-out from the situation requires some degree of upscaling with improved technology and marketing support. The process can be further stimulated by forging urban-rural links in design, production, and marketing stages. A decentralized industrial process around secondary towns and peri-urban areas with backward and forward links with the surrounding rural economy needs to be followed rather than a strategy of rural industrialization where the focus was on villages. The same applies to export-oriented industries such as readymade garments (which are concentrated in Dhaka and Chittagong) as well as EPZs. One of the important social outcome of the process would be the slow-down in the flow of migrants to the metropolitan cities. Such a strategy of decentralized industrialization would, however, require matching investments in infrastructure such as telecommunications, road, electricity, water, and sanitation.

- **Road, Power and Telecommunication**

The impact of roads on poverty is well documented in Bangladesh. Similarly, along with spread of literacy, improvement in road network, and higher household savings through microcredit operations, the availability of electricity is important in promoting private investment in rural areas. In rural Bangladesh, a large part of the growth impact of electricity is realised through its cost-reducing effects on use of irrigation equipment. In addition, electricity can directly impact on the modernization of rural industry, contribute to longer working hours for commercial enterprises, along with favorable influence on social development. In general, power sector investments must get priority over other investments in physical infrastructure in the coming years.

Telecommunication is the third critical element in the infrastructural package for pro-poor growth. The relative importance of telecommunication has increased manifold following the revolution in information technology. Telecommunication would help in regional market integration, increase the effectiveness of the early-warning system for preventing disasters, and help improve the system of governance.

- **Technology Policy**

The above calls for a comprehensive technology policy (especially IT and biotechnology) for purposes of eradicating poverty in the country. New technology is critical in developing new seeds for agriculture and in their adoption in adverse agro-ecological environments. It will also help linking hitherto disintegrated national and local markets with global markets.

The present institutional infrastructure for delivery and adoption of new technology, however, is inadequate. Enhancing technological capability in the public sector and removing barriers in the private sector remains the strategic challenge. Innovation and adoption of technology requires skills that depend on vocational and technical education, transfer of appropriate technology and more reliance on “learning by doing” in the globalized supply chains of production.

B. Increasing Human Development of the Poor

In this section we shall outline policies that have a direct bearing on the basic capability and human development of the poor.

• Human Development

The development of human capital has strong poverty reducing effects in Bangladesh. Several aspects of human development need emphasis in the future. *First*, while there has been considerable quantitative expansion of education, health and nutrition remain relatively neglected in the country. Within the health sector, although some success has been achieved in preventive health care, a small proportion of poor people has access to adequate public health care services. In short, addressing the pro-poor concerns in health remains an unfinished task and the sector must get the priority it deserves.

Second, malnutrition in Bangladesh remains high despite some improvement in the last decade.²⁷ Such a high degree of undernourishment has adverse implications for future poverty reduction. The introduction of National Nutrition Program (NNP) to address the malnutrition of children under two as well as pregnant and lactating mothers through the provision of food supplements, nutrition and health counseling is a positive step to address the problem. These programs, however, need to be strengthened institutionally, with special focus on poor areas and communities. Existing food-targeting programs such as Vulnerable Group Development (VGD) and Rural Maintenance Program (RMP) may also be used to reach to the poorest and the most vulnerable with nutrition-support package.

Third, even in basic educational indicator such as enrollment, the country is yet to achieve complete enrollment at the primary level. The dropout rate (including non-enrollment) is estimated to be 35 per cent at the primary level, with poverty being the most proximate cause. Incentives that are currently provided for enrollment of children from the poor households as well as for girl's education need to be strengthened in the future.

Fourth, the issue of quality cuts across all the above components of human development. As for education, this implies that mere graduation from the primary level would not give the

²⁷ The percentage of underweight children below five was assessed at about 60 per cent in 1996. About 53 percent of the same age group children are stunted in rural areas. The situation for urban children, the rates of underweight and stunting are 46 and 43 per cent, respectively.

desired results on the skill level. At the secondary level, more emphasis needs to be given to vocational and technical education, including dissemination of improved agricultural practices.

C. Strengthening Social Safety Nets

One can broadly identify three sets of policies for the poor in Bangladesh to cope better with various income (consumption) shocks. These policies would help increase the crisis-coping capability and form important risks-insurance policies for the poor. *First*, providing access to credit to the poor in times of emergency to ease the burden of shocks, reduce distress sales and “negative” methods of coping. *Second*, ensuring good public health services to reduce health hazard related income and consumption shocks. *Third*, strengthening disaster preventing and mitigating mechanisms to enhance the coping capability of the poor in times of natural disasters. This is important from the perspective of averting large-scale entitlement failure, which may result in as a consequence of severe natural disasters.

D. Enhancing Participatory Governance

Policies and institutional measures for broadening participatory governance and enhancing the “voice” of the poor require several actions in the country. The first group of measures focuses on empowering the women. This is crucial both for its intrinsic value as a welfare goal and as *instrument* for bringing about favorable social and economic change. The second group of measures relates to strengthening the system of good governance, especially decentralization at the local level. A third group of measures are also needed for building grassroots level initiatives—outside the domain of local government—to create a demand-driven receiving mechanism “from below” and also to act as a pressure mechanism on the quality of governance.

• Closing Gender Gaps

Bangladesh has made considerable progress over the last two decades to bring about greater women’s empowerment. The strengthening of these measures would further contribute to the decline in fertility rate, improvement in child and maternal nutrition and greater welfare for the women themselves. While the gender-gap is closing in Bangladesh for most social indicators such as mortality, life expectancy, and enrollment, the overall level of empowerment measured in terms of literacy, work force participation, property rights, and credit access leaves much to be desired. A related institutional issue is to increase the political voice of women,

especially poor women, which will further enhance their agency role and hence, contribute to faster progress in the well being of children and women.

- **Strengthening Local Government**

Public action can have maximum impact on poverty with the support of a strong and effective local government. While Bangladesh has made some progress, there is a lack of policy continuity on the issue of local governance. The issue goes beyond the aspect of local representation and involves devolution of financial and administrative power from the central authority to local bodies. Decentralizing without capacity building at the local level would not produce desired results.

E. Policies and Institutions for Reducing Inequality

The concerns expressed earlier regarding the rise in inequality in the 1990s need to be addressed. While traditional asset (e.g. land) distribution has limited scope in Bangladesh, other measures for reducing inequality can be undertaken. The poor can get access to land through the tenancy market and benefit considerably through enforcement of better terms and conditions for tenancy. Moreover, the problem of reducing inequality can be addressed in terms of a broad asset framework. Since the access to physical capital is technically constrained by limited availability, access to other assets on the part of the poor may be considered. Providing access to human assets such as basic education and higher level of skills will help the poor to access better employment and income. Similarly, ensuring expanded access to financial assets via microcredit would help the poor to undertake income generating activities. The cooperatives of the poor can also earn income by investing in the bond market. Access to natural assets such as common property resources would help the poor in mitigating risk in times of distress. Access to social assets can be ensured by building grassroots organizations of the poor at the village level, leading to better networking capacity and act as a risks-insurance mechanism. Finally, the access to political assets—greater empowerment—would help the poor to ensure a fair share in public resources and benefits of development.

4.2 Employment Creation: The Key Issue

A significant aspect of Bangladesh's growth process which needs greater attention in poverty reduction is the continuing failure of employment creation to keep pace with increase in labor supply. As a result, a large share of the labor force, mostly rural and unskilled, is forced to subsist in the informal sector, remain underemployed, and live in absolute poverty. While anti-poverty and employment-oriented growth that increases income opportunities for the poor in both rural and urban areas needs acceleration, direct interventions are necessary to make the process more employment friendly in the short run. The need for such programs emanate largely from the failure of the growth process to address critical needs of the poor and the political expediency to bypass the causal issues and mitigate the symptoms of poverty. Despite such roots, well-executed and well-targeted direct interventions can significantly improve the welfare of the poor. It is important, however, to emphasize macro and micro-level interactions and scope of maximizing direct and indirect employment multipliers of such programs.

References

- Ahmed, A.U. and K. Billah 1994, *Food for Education in Bangladesh: An Early Assessment*, International Food Policy Research Institute, Dhaka and Washington D.C.
- Aykroyd, W.R. 1974, *The Conquest of Famine*, Chatto and Windus, London.
- Bardhan, P. 1985, 'Poverty and Trickle Down' in Rural India: A Quantitative Analysis' in J.W. Mellor and G.M. Desai (eds.) *Agricultural Change and Rural Poverty: Variations on a Theme by Dharm Narain*, John Hopkins University Press, Baltimore.
- BBS 2001, *Statistical Year Book of Bangladesh 1999*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- BBS 2001, *Poverty Monitoring Survey 1999: Summary Results*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- BBS 1999, *Report of the Agricultural Census (Rural) 1996*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- BBS 1998, *Report of the Household Expenditure Survey 1995/96*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- BBS 1998, *Report of the Labor Force Survey 1995/96*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- BBS 1994, *Report of the Survey on Food for Works, Test Relief and Vulnerable Group Development 1991*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka.
- Bhatia, B.M. 1967, *Famines in India: A Study of Some Aspects of the Economic History of India (1960-1965)*, Asia Publishing House, London.
- BIDS 2001, *Fighting Human Poverty: Bangladesh Human Development Report 2000*, Bangladesh Institute of Development Studies, 2001.
- Bruno, M., M. Ravallion and L. Squire 1998, 'Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues' in V. Tanzi and K. Chu (eds.) *Income Distribution and High Quality Growth*, MIT Press, Cambridge, Mass and London.

- CDF 2001, *CDF Statistics: Microfinance Statistics of NGOs and Other MFIs*, Vol. 10, Credit and Development Forum, Dhaka.
- del Ninno, C. and P. Dorosh 1998, *Government Policy, Markets and Food Security in Bangladesh* (mimeo), Food Management and Research Support Project, Ministry of Food, Government of the People's Republic of Bangladesh and International Food Policy Research Institute, Dhaka and Washington D.C.
- Gaiha, R. 1995, 'Does Agricultural Growth Matter in Poverty Alleviation?' *Development and Change*, 26.
- Gaiha, R. and A. Deolalikar 1993, 'Persistent, Expected and Innate Poverty: Estimates for Semi-Arid Rural South India 1975-1984', *Cambridge Journal of Economics*, 17.
- Khan, A.R. and B. Sen 2001, 'Inequality and Its Sources in Bangladesh, 1991/92 to 1995/96: An Analysis Based on Household Expenditure Surveys', *Bangladesh Development Studies*, 27.
- Khandker, S.R. 1998, *Fighting Poverty with Microcredit: Experience in Bangladesh*, World Bank and University Press Limited, Dhaka.
- Mahmud, W. 2001, *Informal Sector in Bangladesh: A Macroeconomic Perspective*, Draft Report Prepared for the International Labor Office, Dhaka.
- MOF 2001, *Bangladesh Economic Review 2001*, (in Bangla), Ministry of Finance, Government of the People's Republic of Bangladesh, Dhaka.
- Mujeri, M.K. 2000, *Poverty Trends and Agricultural Growth Linkages in Bangladesh*, FMRSP Working Paper No. 26, Food Management and Research Support Project, Ministry of Food, Government of the People's Republic of Bangladesh and International Food Policy Research Institute, Dhaka and Washington D.C.
- Planning Commission 1998, *The Fifth Five Year Plan 1997-2002*, Ministry of Planning, Government of People's Republic of Bangladesh, Dhaka.
- Ravallion, M. 1997, 'Can High Inequality Developing Countries Escape Absolute Poverty', *Economic Letters*, 56.
- Ravallion M. 1990, 'The Challenging Arithmetic of Poverty in Bangladesh', *Bangladesh Development Studies*, 18.
- Ravallion, M. and B. Sen 1996, 'When Method Matters: Monitoring Poverty in Bangladesh', *Economic Development and Cultural Change*, 44.

Subbarao, K. et. al. 1997, *Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience*, World Bank, Washington D.C.

UNDP 2000, *Human Development Report 2000*, United Nations Development Program/Oxford University Press, New York.

World Bank 1998, *Bangladesh: From Counting the Poor to Making the Poor Count*, Poverty Reduction and Economic Management Network, South Asia Region, World Bank, Washington D.C.